

Tacoma, Washington

Multifamily Housing Update

January 2009

EXECUTIVE SUMMARY

The Tacoma economy performed admirably through much of the year, but the City of Destiny fell on hard economic times in recent months. Seasonally-adjusted payrolls fell -2,600 from September to November, after the metro posted a 400-job advance in the first nine months of the year. Likewise the unemployment rate increased 90 basis points to 4.5% from January to September. The rate rose another 90 bps in the subsequent two-month period to 5.4% in November.

The dismal economic performance in October and November was partially attributable to slower hiring among leisure service and government agencies. Combined, the sectors added 4,300 workers year-over-year in 3Q08 but added only 1,300 jobs in the twelve-month period ended in November. Faster attrition among retail trade and business service firms was also to blame. Retailers trimmed -1,000 positions from payrolls y-o-y in November, while business service establishment cut -1,300 employees over the period.

RED CAPITAL Research (RCR) forecast 2008 job creation of 4,300 (1.5%), down from an 8,800-job advance in the previous year. Our econometric model generates a point estimate of -3,000 jobs lost next year. The confidence interval ranges from -4,000 (-1.4%) to -1,000 (-0.3%).

Metro home prices declined in 2008. The Washington Center for Real Estate Research report that the median price fell -11.9% y-o-y to \$254,300 in 3Q08. Likewise, Pierce County registered a -3.5% annual decline in the OFHEO home price index.

Apartment market trends remained robust in Tacoma. According to Reis, the average occupancy rate rose 60 basis points sequentially and 90 bps y-o-y to 94.7%, owing to strong ten-

ant demand and limited supply. Third quarter absorption totaled 229 units while no units were delivered. Trailing 12-month supply totaled 205 units and absorption added up to 527 units.

Owners were able to take advantage of market tightness by aggressively raising rents. Effective rent growth accelerated from 6.9% y-o-y in 2Q08 to 7.7% in 3Q08. Asking rents advanced at a slower 7.3% annual rate, the difference attributable to a decrease in the average concession package from 3.1% of asking rent in 3Q07 to 2.7% in 3Q08.

Data from the Washington Center for Real Estate Research lend support to the Reis trends. The source shows that occupancy in Tacoma fell 90 bps from 96.4% in 3Q07 to 95.5% in 3Q08. In addition, the average rent rose 7.0% y-o-y to \$825 in 3Q08.

Despite robust 3Q08 market conditions, Reis believe that occupancy rates will fall and the pace of effective rent growth will slow over the next several quarters. The service forecast occupancy to decline 20 bps to 94.5% in 4Q08, attributable to sluggish absorption. Reis anticipate a 10 bps decline next year as demand wanes. Furthermore, effective rent is forecast to increase 0.1% sequentially in 4Q08 and only 2.1% y-o-y in 2009.

Despite strong market fundamentals, investors pulled back on property acquisitions. According to Reis, four trades totaling \$53.5 million in sales proceeds closed in 2008, down from ten trades and \$109.3 million in sales volume in the previous year. Buyers concentrated on high quality assets, as indicated by the \$120,767 average price per unit. But cap rates (5.6%) remained high relative to other Northwest markets. Consequently we assign a cautious “*Accumulate*” rating to Tacoma assets, despite the weak economic outlook.

SNAP SHOT

	Y-o-y change	Projected 2008
Vacancy (5.3% - 3Q08)	90bps ↓	20bps ↑
Effective Rents (\$745 - 3Q08)	7.7% ↑	5.8% ↑
Cap Rate (5.3% - 3Q08)	40bps ↑	unch ↔
Employment (286.4k - 3Q08)	4.9k ↑	4.3k ↑

KEY POINTS

- The metro vacancy rate fell 60 basis points sequentially and 90 basis points year-over-year to 5.3% in 3Q08, owing to steady tenant demand. A net of 229 units were absorbed during the third quarter and 527 units were absorbed in the twelve-month period ended in September. The demand for Class A properties was particularly strong as leases for 368 units were netted over the year.
- Asking and effective rents increased 7.3% and 7.7% year-over-year, respectively, in 3Q08. The pace of annual effective rent growth accelerated from 6.9% in the previous period.
- The Washington Center for Real Estate Research report an average rent of \$825 in Pierce County in September, up 7.0% from the previous year.
- Home prices trended lower. According to OFHEO, single-family home prices fell -3.5% year-over-year in 3Q08, ranking 185th among the 292 markets tracked by the source.
- Reis data show that apartment sales volume fell -51% to \$53.5 million in 2008. The average price per unit rose 58% to \$120,767.



To register for free access to RED's full research reports, please [click here](#).